

LINKING YOUNG ADULTS TO MICROBUSINESS:

Providing New Pathways to Economic Opportunity



Acknowledgments

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About AEO

The Association for Enterprise Opportunity (AEO) is the leading voice of innovation in microfinance and microbusiness in the United States. For twenty-five years, AEO and its more than 450 member organizations have helped millions of entrepreneurs contribute to economic growth while supporting themselves, their families and their communities. AEO members and partners include a broad range of organizations that provide capital and services to assist underserved entrepreneurs in starting, stabilizing and expanding their businesses. Together, we are working to change the way that capital and services flow to underserved entrepreneurs so that they can create jobs and opportunities for all.

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PROJECT OVERVIEW

In 2015, The Charles Stewart Mott Foundation partnered with the Association for Enterprise Opportunity (AEO) to underwrite a research initiative aimed at uncovering new economic opportunities for underserved young adults. The core hypothesis driving the scope of the project is that it is possible to activate the microbusiness industry to address an entrepreneurship and employment strategy for a segment of youth 18-24, while also working with youth development organizations as part of the entrepreneurial ecosystem. While other efforts seek to understand how to connect young adults to education and the workforce, this work seeks to probe the possibilities of several additional pathways for younger adults related to microbusiness: launching their own businesses; becoming more employable through entrepreneurial training; and getting connected to employment and training opportunities through small business owners. To that end, this paper presents the first phase of the endeavor: establishing a shared fact base, accompanying insights, and an initial set of ideas for moving forward.

To begin, an extensive literature review was conducted to understand the landscape, which also aided in the design of several primary research components. These included (1) an in-depth quantitative study of youth ages 18-24 in various stages of connection and disconnection to education and employment, via geographically dispersed mall-intercepts as well as on-line panels, (2) a quantitative survey of youth entrepreneurs aged 18-64 who started successful businesses when they were young, (3) a

qualitative piece involving conversations with ten business owners about their staffing challenges and perceptions of Millennials, and (4) a survey of AEO members to assess the current capacity for serving youth 18-24.

In addition, a group of experts was coalesced to form an Advisory Roundtable for the project, helping AEO to frame the issues, challenges and opportunities for youth seeking new economic opportunities. They represented a diverse group from inside and outside the microbusiness industry including policy tanks, non-profits and youth development agencies. These advisors also contributed to the body of ideas generated at an in-person ideation session in Washington, D.C. on November 3, 2015. During that day long session, several intriguing program overviews were presented and more information about them is included in the Opportunities section starting on page 25. In addition, four Chicago youth participating in the IT Ambassador program through Chatham Business Association took part in the ideation, with two talking to the group about their personal experiences. A local, young entrepreneur also joined us. A complete list of participants can be found at the end of this report.

This initial paper explores entrepreneurship as a viable alternate pathway for youth ages 18-24 – though perhaps not often considered by them for various reasons nor often included in youth-focused development programs external to the microbusiness industry. Various opportunities to further the objective of linking youth to entrepreneurship and employment within the industry are offered.

SUMMARY

1. Youth unemployment in the U.S. is much higher than for adults 25 years and older, and worse for minorities. Prolonged youth unemployment costs the individual reduced lifetime earnings, can lead to serious outcomes like incarceration, and increases reliance on government supports, which is funded by tax payers. It affects all of us.
2. The existing workforce is pulling away from younger people, with even Millennials possessing post-secondary degrees finding it difficult to get hired. Employers are increasingly demanding college degrees and also say that incoming potential workers lack certain basic skills, especially communication and soft/interpersonal skills.
3. College tuition and debt are at an all-time high and many people cannot afford to attend.
4. Yet even without post-secondary credentials or much work experience, young people today have optimism and ambitions, are technologically savvy, and tend to describe themselves positively.

This paints a picture of potential talent with limited opportunities to utilize that talent.

All of these factors listed above support investigation into the viability of actively connecting youth to entrepreneurship – helping them to create their own opportunities.

In fact, this research shows that 45% of Youth 18-24 who are not currently in school and un-/under-employed are highly interested in starting their own businesses; however, they lack the knowledge, resources and supports to do so.

5. Studies have shown that a person is more likely to start a business if entrepreneurship is already in the family, indicating the strong effect of role modeling.¹ The business knowledge and networks are readily transmitted to the would-be entrepreneur, as well as possibly certain values like autonomy and perseverance. Therefore the ability to start up a business as well as the confidence to do so gives some people who are exposed to it in their families-of-origin a jump-start. Others not born into families who run businesses may not even consider starting one themselves as it may appear too complicated, daunting, foreign, frightening or just not thought of at all. And according to data from the Federal Reserve, fewer young people are starting businesses today.

Therefore, actively exposing youth to entrepreneurship, especially those for whom entrepreneurship is not familiar, is necessary in order to break the cycle and expose potential entrepreneurs to new economic opportunities.

But Entrepreneurial Training does not need to end only in self-employment, nor need it be largely focused on business planning and financial literacy and other technical aspects. A holistic approach to Entrepreneurial Training (ET) that teaches business acumen but also life skills and encourages character development, offered to those youth who may lack post-secondary credentials and have had little work experience, could not only prepare them for launching a start-up or joining a start-up team, but also improve their employability by small businesses, non-profits or the general workforce. It may even lead to more interest and preparation for college.

One group that is focused on ET for young people is the Aspen Youth Entrepreneurship Strategy Group. They cite these positive outcomes of such training:

- Evaluation studies of high-school-level curricula in youth entrepreneurship report that students increase their occupational aspirations, interest in college, reading, and leadership behavior after participation. Six months later, 70 percent of the alumni in a recent evaluation cohort were in college, 63 percent had jobs, **and one in three ran a small business.**²
- The experience of a sense of ownership in their lives was four times higher for alumni of youth-entrepreneurship programs than for students who did not take such courses³

Besides business skills and financial literacy, an impactful program may also offer training to cultivate a specific mindset and softer skills.

- According to many observers, an entrepreneurial mindset — a critical mix of success-oriented attitudes of initiative, intelligent risk-taking, collaboration, and opportunity recognition — is the missing ingredient (what employers want vs. what youth bring). This skills crisis is becoming more critical because the American economy is shifting. Not only will the traditional skills of reading, writing, and math be needed to thrive in this economy, but also technological savvy and self-direction.⁴

While some organizations like BizWorld cite benefits of and advocate for early exposure to ET in elementary and secondary school settings (as did many in our Expert Advisory Panel), this initiative focuses on young adults 18-24, who are beyond primary school. Therefore, the following opportunities outlined later in this paper include:

- Replicating and scaling existing youth entrepreneurial training programs such as Youth Business USA, City StartUp Labs and others
- Targeted outreach to attract more youth to these programs via social media, cinemas, celebrities and same-age ambassadors
- Connecting youth development programs and organizations like Youthbuild, My Brother's Keeper and Opportunity Youth Network to existing entrepreneurial training programs to enhance exposure and expand offerings
- Creating new innovative financial products, supports and initiatives that foster youth economic opportunity such as “nano” loans and social impact bonds

45%
of Youth 18-24
who are not currently in school and un/under-employed
are highly interested in starting their own businesses

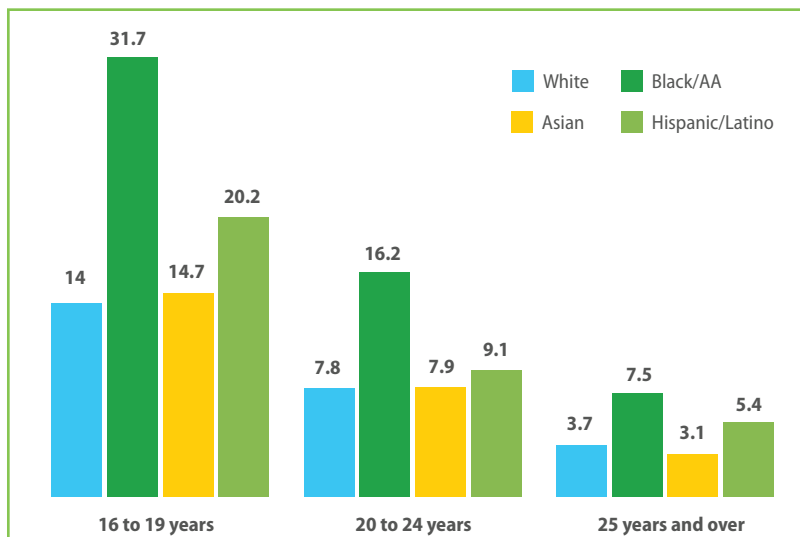
PART I: YOUTH UNEMPLOYMENT AFFECTS EVERYONE

Youth Unemployment is Much Higher Than You Might Know

The U.S. national unemployment rate at present is very low. Reaching 5.0%⁵ in November 2015, the unemployment rate is about half what it was post-Great Recession in 2009 and has been steadily falling ever since. Moreover, the 5% figure ranks 21st out of the last 68 years, sorting by lowest rates. That means that nearly 70% of the time, each year since 1948, unemployment rates have been higher. This is very good news, at least on the surface of things, and many Americans might feel content that – for the vast majority of people – finding at least some type of work right now is not a problem.

However, unfortunately, the averages hide the harsher reality for younger people and people of color.

Unemployment Rates by Age



Bureau Labor Statistics, Current Population Survey, October 2105

For teens, the unemployment rates are roughly 4 times higher than for those 25 and older, and for 20-24 year olds, the rates are about double. When further segmenting by race and ethnicity, the situation becomes even worse, with close to 32% of black teens and 20% of Hispanics in the same age group currently looking for work.⁶ This translates to 2.1 million people 16-24 currently unemployed, a troubling number on its own, but which doesn't include: those who are drastically underemployed and scarcely eking out a livelihood, those who have given up looking, or those not able to apply for unemployment because they haven't yet held a steady job, but need one.

There are close to 40 million people in the U.S. between the ages of 16 and 24.⁷ Some are enrolled in school (primary and secondary), some are working (full-, part-time, under-employed), some are officially unemployed as discussed above, but there is also another group worth considering: an enormous floating contingent of young people neither working nor in school, the cohort of disconnected youth we now call Opportunity Youth, which currently stands at 5.5 million.⁸ That's about 14% of 16-24s.

2.1 million
people age 16-24
currently unemployed

Wide-Reaching Ramifications of Youth Unemployment

We may know somebody who fits into this category of **Opportunity Youth**, and can experience firsthand the concern we have for their well-being or witness their own probable anxiety produced by the inability to get started on an earnings path, worry over how to achieve a livelihood and care for themselves and other people relying on them. But even if we don't, the ramifications of 5.5 million young people out of work and out of school – the “disconnected” group -- will affect us all, as the costs to society are great:

- The longer a young man remains disconnected, the more likely to become incarcerated.⁹ Jails cost taxpayers money; communities overall are less safe; and with a record, he will have a much more difficult time joining the existing workforce.
- The longer a young woman remains disconnected, the more likely to become a young mother¹⁰, impacting her economic situation and ability to finish post-secondary credentials as well as work.

- The longer these people remain unemployed or under-employed, and under-credentialed, the lower their lifetime earnings¹¹, which increases reliance on government supports leading to larger government expenditures, but reduces potential tax revenues that the government can collect.

In fact, Belfield and Levin calculate the total fiscal and social costs, across the lifetime of a disconnected cohort, is in the trillions.¹² However, they also estimate that the current investments by local and federal governments are only approximately one-tenth of the fiscal losses each year.¹³

In addition, disconnection from school and work correlates to lower marriage rates, which affects household income and assets,¹⁴ (and therefore subsequently impacts the welfare of children).

The good news is that alleviating disconnection early pays off as Besharov and Gardiner (1998) found that full-time employment was much more prevalent among those who were disconnected for just a short-term basis.¹⁵



The ramifications of 5.5 million young people out of work and out of school... will affect us all, as the costs to society are great.

The high unemployment figures cited above for young people include those with post-secondary degrees and those without. For those without, joining the existing workforce is an even more difficult prospect. According to the Foundation Strategy Group, 63 percent of jobs are projected to require some postsecondary education by 2018, versus just 28 percent in 1973.¹⁶ Case in point, 27.7% of employers project a reduction in high school graduate hires and an increase in graduates of 2 and 4-year degrees.¹⁷

Further impacting the ability to find employment, accelerated productivity brought on by improvements in technology is changing the number and type of jobs available in the workforce.

Some might wonder if behavioral aspects of youth are contributing to the large number of disconnected youth but again, Belfield and Levin say that teen pregnancy, high school dropout rates and arrests are down but college tuition keeps rising and median earnings are down.¹⁸ Therefore, it appears that the economy is impacting the trajectory of youth more so than their behavior. In fact, it's probably the other way around: the lack of economic opportunity leads eventually to serious negative outcomes like pregnancy and involvement in the justice system.

Disconnected youth are more often from lower-income communities, and more likely to be of a minority group.¹⁹

If disconnection means a lifetime of reduced earnings and other possible serious consequences, then the cycle of economic hardship will be perpetuated unless there are interventions and new ideas to help youth get back on track.

63%
**of jobs will require
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It is imperative that **Opportunity Youth** find pathways to economic security and there are many programs and services in existence today that strive to get youth the education and work force training they need in order to increase the probability of getting back on track. However, the workforce is pulling away from the youngest cohorts and not everyone is equipped or funded to succeed in an educational setting. **Therefore, we want to explore a third entry point for disconnected youth, via the Microbusiness industry.**

This paper summarizes a research initiative undertaken by AEO, and funded by the Mott Foundation, to explore these ideas:

- 1. How can we help youth with limited assets to start their own businesses?**
- 2. How can we expose more youth to holistic entrepreneurship training so that they are not only more equipped to start businesses but also more employable?**
- 3. How can we encourage small businesses, especially microbusinesses, to train and hire Opportunity Youth?**
- 4. And finally, how can we encourage non-profits in the microbusiness industry to train and hire Opportunity Youth?**



PART II: EXPLORING A THIRD PATHWAY TO ECONOMIC OPPORTUNITY

In general, starting a microbusiness is a viable option for many because of low barriers to entry and wages that are, on average, higher than the minimum wage.²⁰

In addition, attention should be given to the fact that the Federal Reserve is reporting lower rates of business start-ups among young adults aged 18-24,²¹ which causes concern as new businesses create two-thirds of the new jobs.²² The reasons for the decline in ownership among younger adults hasn't been fully explained as of the time of this publication but if rising debt and lower median net worth²³ are creating financial barriers to business ownership, then innovative financial products are needed for startups.

Research shows that, in general, the desire to run a business is higher when people are younger and declines over time as people age, while actual ownership rates show the inverse.²⁴ This makes sense, as it's easier to start a business when one has acquired more assets, networks, experience and solid credit scores. But therein lies the conundrum – desire is strong when assets are few.

Opportunity Millennials = OMs

Not in School, un/under-employed

On Their Way Millennials = OTWs

Completed/In Post-Secondary School

Young Entrepreneurs = YEs

Started business age 18-34

There Is a Good-Sized Group of Interested and Capable Young People

In the summer of 2015, AEO conducted a series of primary research modules with M&RR Research designed to ascertain demographics, behaviors and attitudes that are common and unique across several distinct millennial segments, which included two groups of young adults in various stages of connection and disconnection, plus one young entrepreneur group.²⁵ The objective was to uncover interest in business ownership and perceived readiness to embark upon such an endeavor, and compare demographics, attitudes and personality traits of potential entrepreneurs to those who actually started successful businesses when they were very young. The results are encouraging.



A group of 150 business owners producing substantial revenue ages 18-64 who started businesses when they were between the ages of 15-34 were surveyed in order to ascertain their unique challenges to start-up and their personality traits (**Young Entrepreneurs or YEs**). The research also surveyed 600 young potential entrepreneurs, divided into two groups. The first group was called **Opportunity Millennials (OMs)**; They were 18-24, either not working but looking for employment or under-employed, and also

not in school nor in possession of a post-secondary degree. The second group was dubbed **On Their Way Millennials (OTWs)** and this group was also 18-24 but either possessing of a post-secondary degree or currently enrolled in a program to obtain one. The hypothesis was that the two groups would be characteristically different from each other due to the different paths taken, and this turned out to be correct. Because the data set is very large, only the top-line highlights are included in the following.

	OM	OTW
GPA 3.0+ Senior Year	59%	90%
Felt Ignored by Teachers	35%	25%
Helped w/ Household Expenses	34%	10%
Lived in Safe Neighborhood	49%	67%
High School Friends Going to College	47%	71%

Highlights Regarding School, Living, Money & Goals:

- In high school, OMs had lower grades than OTWs; felt ignored, mistreated by teachers; and one-third had the additional pressure of having to contribute to household finances (compared to just 10% of OTWs)
- Only half of OMs said they lived in safe neighborhoods, versus two-thirds of OTWs feeling the same
- Fewer of OMs circle of friends were college-bound compare to OTWs; just 1 in 5 OMs started post-secondary school and only 1 in 4 planned to go; the top 7 reasons for not attending were financial in nature; the 8th top-ranked reason was school burn-out, which isn't surprising given their reported high school experience.

Reasons for Not Going to College	OM
Could not afford tuition	65%
Fear of student loan debt	63%
Needed to support myself after graduating high school	62%
Financial hardship	62%
Could not work and go to school at the same time	62%
Needed to pay for rent, household utilities, groceries	60%
My family could not afford to send me to school	56%
Was burned out / tired of school	54%

- Additionally, 42% of OMs say they would have gone to college given more encouragement
- OMs worry more about day to day finances while OTWs are concerned about jobs, being successful, loneliness, loan debt, and living up to others' expectations

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Most Worried About	OM	OTW*
Day-to-day financial difficulties	70%	73%
Not becoming as successful as I hoped	67%	82%●
Being able to provide for my (future) children	64%	59%
Trying to juggle (work / school) and personal life	58%	66%
Job responsibilities / stress	56%	74% ●
Feeling like I've made the wrong decisions in life	52%	63% ●
Health concerns	50%	54%
Family responsibilities	49%	53%
Living up to other people's expectations	48%	68% ●

*Blue circles designate significant difference for OTWs vs. OMs

- OMs are exuberant about life in general, with expectations to complete lots of goals (buy a home, get married, have a career).

Expect To Do In My Lifetime	OM*	OTW
Buy a home	91% ▲	85%
Have a fulfilling career	91%	89%
Get married	84% ▲	78%
Rise to the top of my profession	83% ▲	71%
Travel to a different country	68% ▲	49%
Have a child	66%	75% ●
Own my own business	59% ▲	36%
Be a millionaire	58% ▲	46%

*Dark blue triangles designate significant difference for OMs vs. OTWs

Highlights Regarding Work:

- Among those with a job, 50% of OM's say they don't work enough hours, but 20% of OTW's feel they work too many; OM's are more likely to have service jobs, and they earn a lot less money per year (\$14K vs. \$32K for OTW's). So for them, an alternative pathway to economic livelihood appears more urgent.
- 47% of YEs say they are willing to work 60+ hours a week and a similar portion of OM's say the same (43%) but just 27% of OTW's agreed, in the survey.

Highlights in Digital Capability:

- With respect to technology, OM's are a bit behind OTW's in terms of capability but comfort in the digital zone is high overall, underlining a sector to emphasize for these groups:
 - 79% of OM's and 97% of OTW's are comfortable with computers while 71% and 96% respectively are comfortable with Microsoft Word (62% and 86% with PowerPoint)
 - 65% and 75% of OM's and OTW's respectively use Facebook

Highlights in How They Describe Themselves:

- Encouragingly, when asked to pick personality traits that describe themselves, both OM's and OTW's say they have "Creative talent" at about the same level as Young Entrepreneurs. YEs also see themselves as "Individual," and possessing a "Can-Do Attitude." OM's think they are "Social/Funny" and "Spirited."

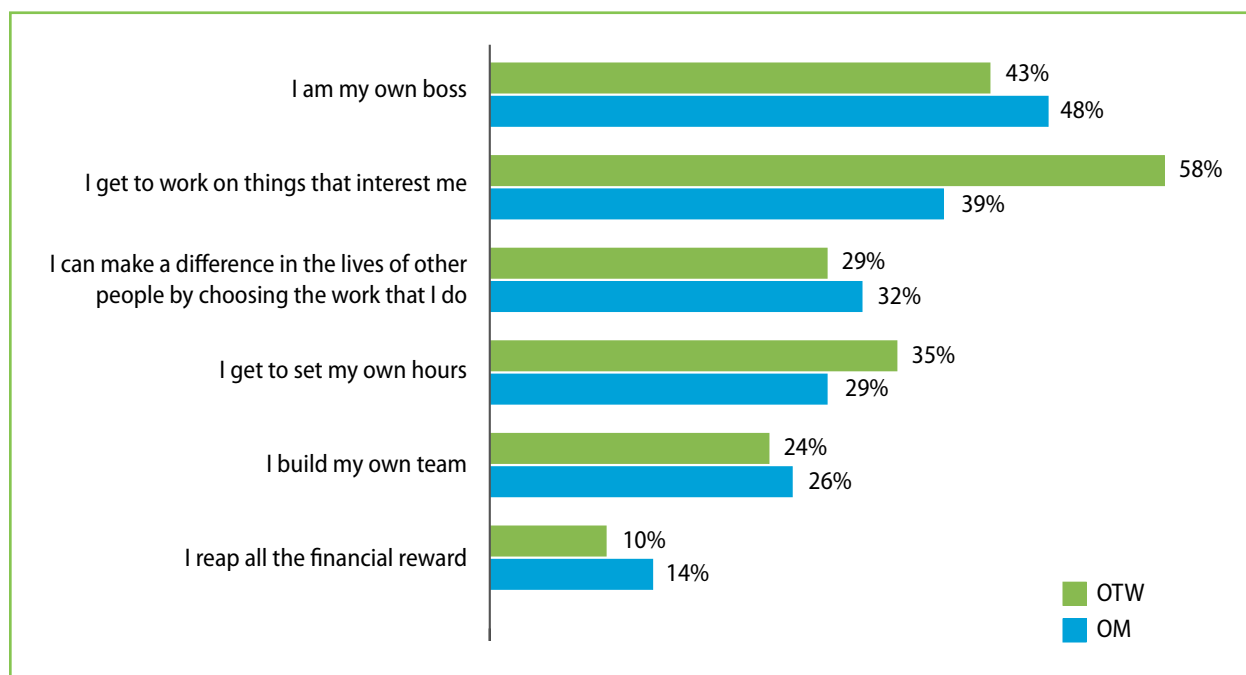
	OM	OTW	YE
Creative talent	41%	39%	42%
Social / Funny	40%	27%	28%
Spirited	39%	34%	33%
Caring	36%	34%	32%
Individual	35%	33%	49%
Sexy / Cool	33%	14%	9%
Can-Do Attitude	27%	31%	41%
Happy	27%	19%	29%
Active / Healthy	23%	25%	25%
Trendy / Youthful	19%	15%	8%
Down	18%	19%	7%
Confident	10%	13%	25%
Quirky	5%	13%	7%

Highlights Regarding Entrepreneurship:

- OM* are much more likely than OTWs to say “running my own business” is a sign of success and 59% want to own a business at some point in their lives (vs. just 36% of OTWs); a much larger % of OM* say Business Owners are respected in society, versus OTWs (28% vs. 19%).
- The top two perceived benefits of running a business for both OM* and OTWs are “I am my own boss” and “I get to work on things that interest me,” which also happen to be the top two benefits as stated by Young Entrepreneurs.
- 45% of OM* say starting a business is very or extremely appealing, vs. 33% of OTWs who say the same. Interestingly, the Kauffman Foundation cites a similar statistic produced by Harris Interactive: that 4 in 10 young people 8 to 21 would like to start their own business.²⁶

Prospect of Starting a Business	OM*	OTW
Extremely Appealing	21%	13%
Very Appealing	24%	20%
TOTAL	45%	33%

Perceived Benefits of Owning a Business



4 in 10 young people 8 to 21 would like to start their own business.

Among OMs who said it was a somewhat, very or extremely appealing idea to start their own business, the top three biggest perceived barriers are:

- Too Great a Financial Risk (52%)
- I Won't Be Able to Get the Proper Funding (42%)
- **I Don't Know What Product/Concept/Service to sell (26%)**

For organizations assisting young people with starting a business, offering up ideas that match community needs with the talents and the interests of the individual could be extremely helpful, if they don't have an initial business type in mind or if the business they are proposing doesn't have market support.

Interestingly, OTWs who said starting their own business was appealing exhibited even more perceived hindrance with respect to finances. Their top three perceived barriers:

- Too Great a Financial Risk (62%)
- I Won't Be Able to Get the Proper Funding (60%)
- **I Don't Where to Find Information to Help Me Start My Own Business (38%)**

For OTWs, perhaps their expenses and debt related to education made the concept of starting a business much more daunting. In addition, they weren't sure of the resources available to give them the knowledge base desired.

Perceived Barriers to Entrepreneurship:

Mainly Financial

Meanwhile, among Young Entrepreneurs, the three biggest barriers they faced when deciding to start and run their own businesses were:

- Too Great a Financial Risk (39%)
- Too Much Competition (37%)
- People Will Doubt I Can Pull This Off (28%)

"Too great a financial risk" was the top impediment to starting a business for young entrepreneurs, validating the concern regarding business financing for OMs and OTWs, especially for those without a cushion of assets and/or debt. Also to be noted, YEs said "too much competition" and "doubt from others" were barriers in the early days. Therefore, effective program design for aspiring young entrepreneurs might include market research training and confidence building.

Opportunity Millennials = OMs
Not in School, un/under-employed

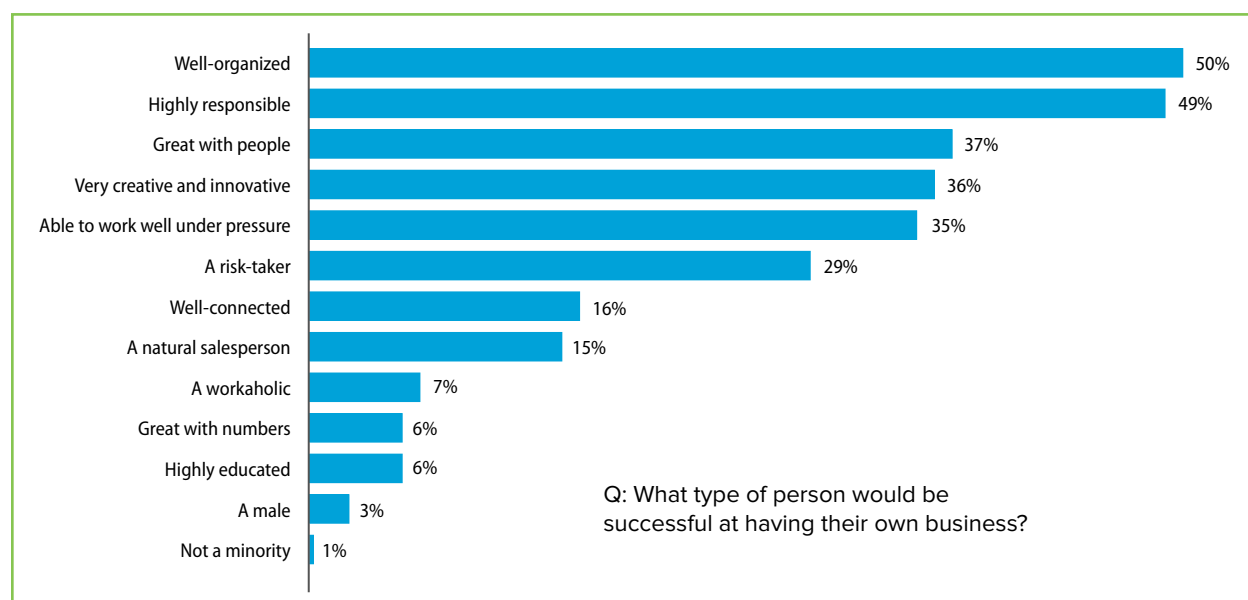
On Their Way Millennials = OTWs
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What Contributed to Business Success for Young Entrepreneurs

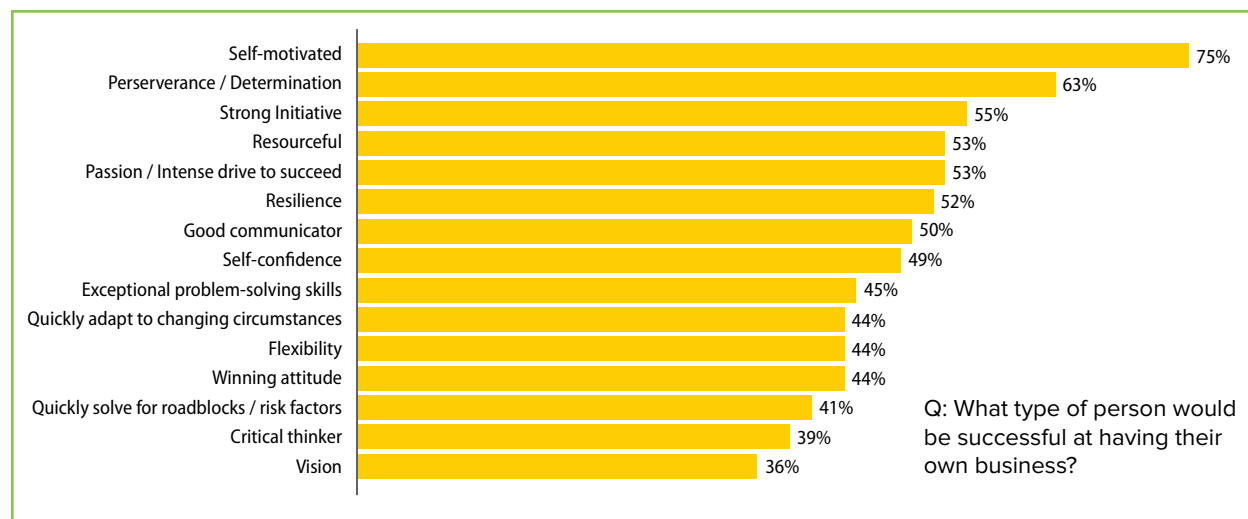
Young Entrepreneurs believe that people who are well organized and highly responsible make for the most successful business owners. Also, being “great with people,” “creative and innovative,” and “able to work well under pressure,” are also ranked highly in terms of personality assets. However, being a risk-taker is cited by nearly 30%, which ranks it in the middle of attributes. On the other end, being a “workaholic,” “great with numbers” and “highly educated” are not deemed owner attributes correlated with success. Interestingly, even though minorities have low ownership rates versus their proportion of the population, Young Entrepreneurs didn’t believe being a minority was a barrier.

Young Entrepreneurs Say Successful Business Owners Are:

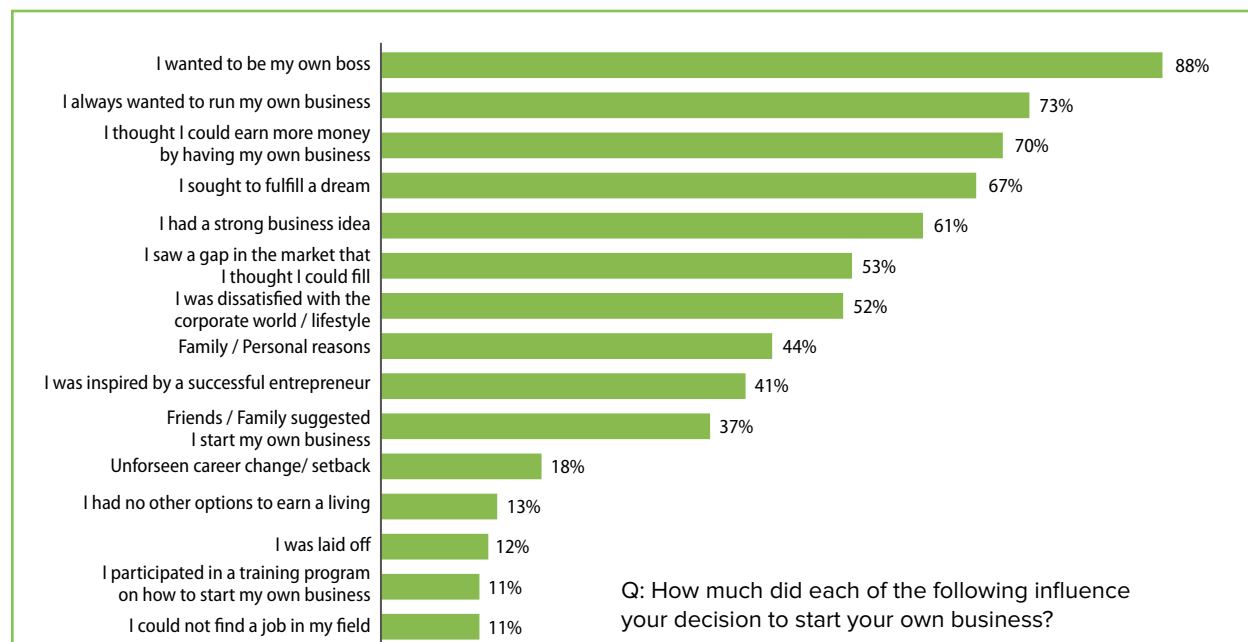


Being “self-motivated,” and possessing “perseverance and determination” are picked as most the critical traits a potential business owner should have. Not shown above, having a “high risk tolerance” was designated by just 18% of YEs as being a *critical trait* for wanting to start a business.

Critical Traits for Wanting to Start a Successful Business, According to YEs:



Being in Charge is a Major Motivator



Young Entrepreneurs say that they wanted to be their own boss and they've always wanted to run a business as top reasons for prompting their decision to start up. Earning good money, fulfilling a dream and having a great idea were also ranked highly.

In order to finance the endeavor, the vast majority of young entrepreneurs (87%) said they used their own money to start the business.

A bit more than half also borrowed money (57%) and the bulk of the borrowing came from family and friends (43%). Beyond the informal circuit, credits cards (23%) and bank loans (22%) were most often sourced for credit. There was almost no utilization of crowd funding, payday loans, or non-profit lenders.

How Young Entrepreneurs Funded the Start-Up

Used my own money	87%
BORROWED MONEY TOTAL	57%
NOT FROM FAMILY / FRIENDS	43%
Credit cards	23%
Bank business loan	22%
Refinanced my home	3%
Crowdfunding	2%
Nonprofit lender supporting startup companies	1%
Merchant cash advance ("payday loan")	1%
Through a venture capital firm	1%
Other	3%
Family / Friends	27%

Q. When you started your business, how did you generate the funding?

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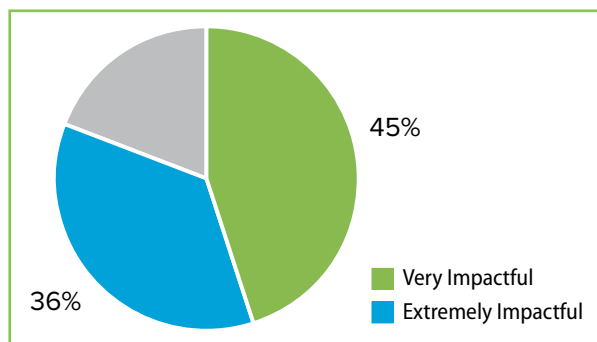
Mentoring is Impactful

Just 31% of **Young Entrepreneurs** said they had a mentor who helped teach them about starting a business but 81% said having the mentor was impactful. And 77% said having a mentor boosted their self-confidence. About 80% of the mentors were in the same industry as the new business owner.

In a January 2016 webinar entitled “My Brother’s Keeper Alliance and MENTOR: Overview of Mentoring Boys and Men of Color and Pathways to the Mentoring Effect,” key aspects of successful mentoring were offered. These are two summary points from that webinar:

- Most youth thrive from blend of instrumental (goal-oriented, skill development focus) and developmental (belonging, mastery, independence, generosity) activities in mentoring relationships.
- Mentors help youth glimpse their future selves and shed negative identities they may be harboring about themselves.

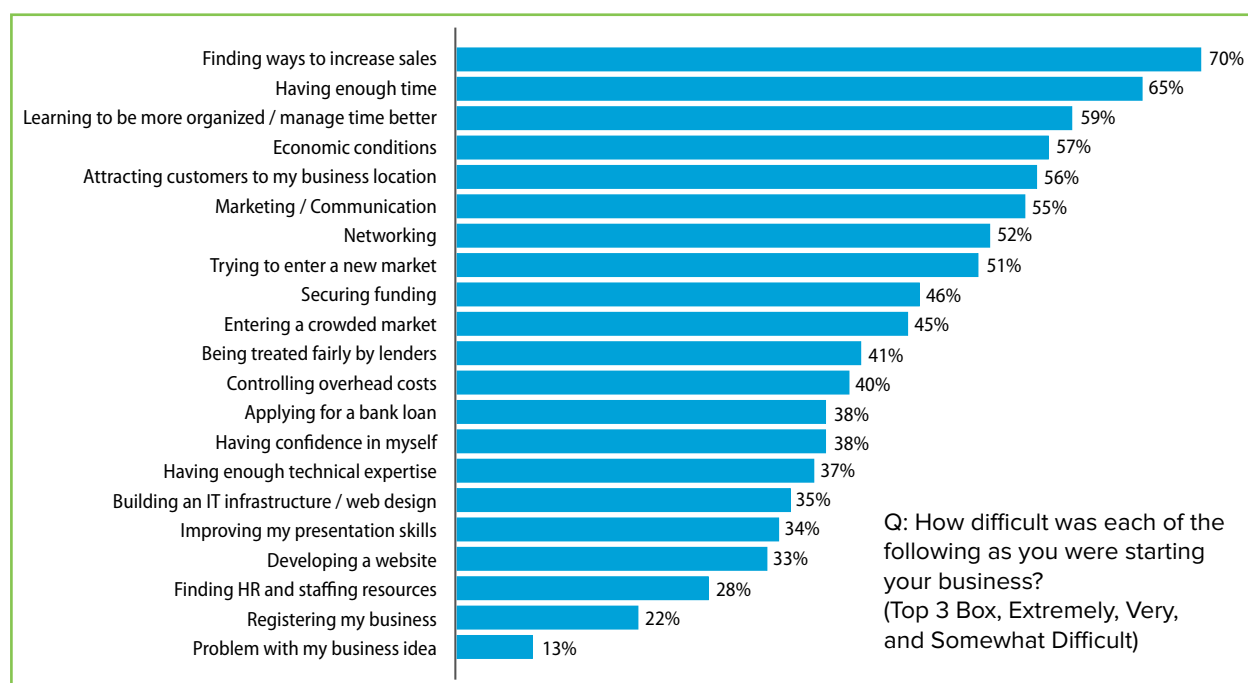
Impact of Mentor



How to Grow and Managing Time Among Top Difficulties

People who started businesses when they were young said that the top difficulties they faced were how to increase sales and attract more customers, manage time, and deal with prevailing economic conditions. On the other hand, the idea for the business, finding staff, getting a website and other IT tasks were considered manageable.

Difficulties Faced by Young Entrepreneurs



Young Business Owners Wish They Knew More About How to Grow

Similarly, when asked what they wish they knew more about, looking back on the early days of starting a business, 70% said “how to accelerate and grow my business more quickly.” How to set it up wasn’t the issue as much as how to promote and expand.

Difficulties Faced by Young Entrepreneurs



To summarize this section, the research shows that there is a large group of **Opportunity Millennials** who find the idea of owning a business very or extremely appealing; they are willing to work hard, are digitally proficient, and consider themselves to be creative. They are more inclined to be interested in pursuing this path than the **On Their Way Millennials** who are seeking post-secondary credentials, but there is a solid group of them also interested. However, financial barriers, not surprisingly, hamper the possibility of entrepreneurship, for both groups. Finally, helping them designate a product or service to offer and instructing on the basics of business and finance are top priorities for young adults 18-24 who might pursue a start-up venture. The next section looks at the current capacity for the microbusiness industry to offer curated services especially for them, as well as the attitudes of small business owners in offering employment or training.

PART III: EXPLORING THE ECO-SYSTEM ►

SMALL BUSINESS & YOUTH

In this section we explore two aspects of the Microbusiness industry: (1) How do small business owners feel about hiring **Opportunity Youth** and (2) What is the current capacity of the industry to offer curated services especially tailored for young adults?

(1) Small Business Owner Interviews

In this qualitative piece, ten small business owners²⁷ were interviewed at length about their staffing challenges and what the potential obstacles were to giving someone without a resume or completed degree a chance. AEO retained and supervised Doyle Insights to conduct the research.

The ten businesses interviewed included one non-employer, five with 1-3 employees and four with 5-7 employees. They included pet care, construction, graphic designing, dentistry, healthcare, media, tax prep and food businesses.

Though not representative of all small businesses, several encouraging and actionable ideas emerged.

First, mirroring the quantitative piece on **Young Entrepreneurs**, Small Business Owners (SBOs) said that there were many pluses to being the boss:

- Enables freedom, independence and creativity
- Offers flexibility
- Is rewarding
- Opportunity to grow and shape the business as they see fit

However, there were also challenges:

- Setting a path toward growth
- Procuring resources to support growth
- Maintaining visibility with clientele
- STAFFING

In terms of hiring talent, SBOs are crunched for time and don't have much capacity for searching, vetting and training. Not surprisingly, like most employers, SBOs look for employment experience (without gaps) and education on submitted resumes. When asked what they thought of hiring **Opportunity Youth**, SBOs wanted to be helpful and give someone a break, but were unsure how to find or connect with them. Additionally, while they cited energy, enthusiasm and trainability as positive traits **Opportunity Youth** might bring to the table, they were also suspicious regarding their lack of credentials, wondering what they did with their time, leery of trusting them, and doubting their work ethic and future loyalty. A few negative attributes often cited in public media

came up as well in the discussions: unreliability, poor attitudes and a sense of entitlement were expected in young Millennials. Whether or not these descriptors were based on first-hand experience, unfairly perpetuated by the media, or just assumptions older people generally make about younger people, the result points to the same solution: *coordinated efforts to explain, market and connect the untapped talents of Opportunity Youth with Small Business Owners who need staff, are going to be necessary in order to change perceptions and close the gap.*

Several SBOs mentioned desiring skills in potential younger staff related to communication, effective written and oral expression, as well as ability to interact appropriately with customers. This attitude is corroborated in other studies like in the research done by The Conference Board.²⁸

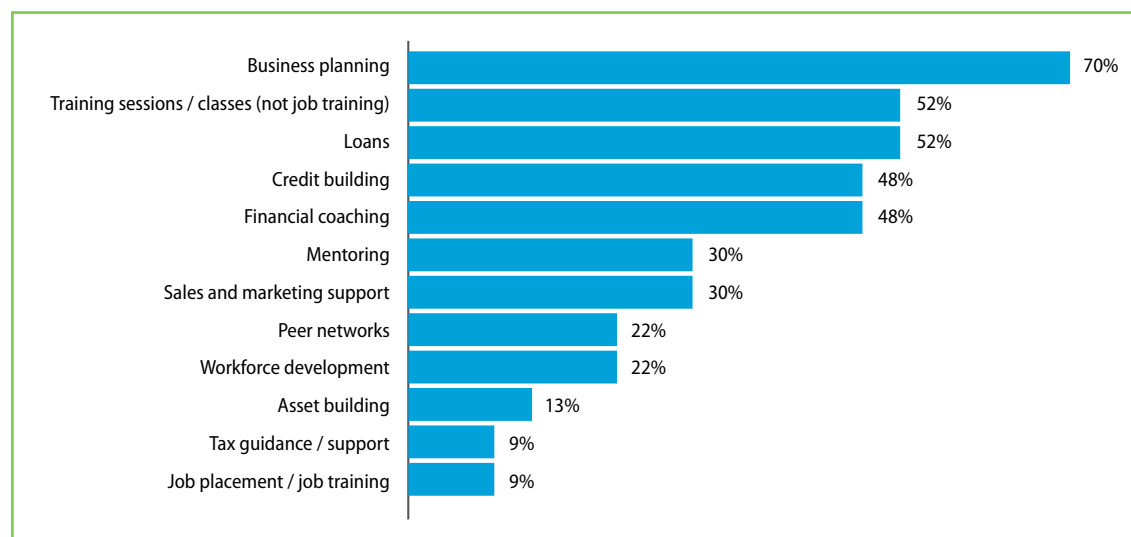
In addition, SBOs might hesitate to hire new staff as some expressed concerns about limited opportunities for growth and advancement in their small businesses.

(2) Microbusiness Industry Survey: Current Youth Services

AEO surveyed its member base to assess the capacity and desire to offer specially tailored services to Youth 18-24. Among the respondents, there were these main organizational categories: Certified Community Development Finance Institution (CDFI), Microbusiness Development, Entrepreneurship Training, and Microfinance Lender. They were divided among national, regional and local footprints, and most considered their main service to be loans, but they also offered a breadth of other services including mentoring, financial coaching, training and credit building.

These organizations said that about 2/3 of their clients were 25-54 and just 14% were ages 18-24. *But 46% said they offer business development services, training, or access to capital tailored specifically to low-to-moderate income (LMI) adults ages 18-24 who are seeking to launch or grow a business.* The chart below displays which services are most often tailored to young adults 18-24. Business planning is most cited.

Services offered tailored specifically to LMI business owners/aspiring entrepreneurs ages 18-24



56% of survey respondents said they encountered challenges when preparing services for young adults, including cultural/language barriers, follow-through issues, marketing and issues with credit. Some examples of challenges and responses to those challenges:

“The biggest challenge for entrepreneurs in this age range is lack of credit history and capacity to service new debt. Collateral is often a challenge as well since most do not have assets that they own free and clear. Our response was to offer other lending products such as the Promise Loan, that does not take credit or collateral as much into account.”

“...Getting the word out about our program focused on age group. We hired employees in this age group to run the program and it has taken off from there.”

Nearly 80% agreed strongly or somewhat that “LMI business owners and aspiring entrepreneurs ages 18-24 have unique needs that warrant development of specific products and services”. And while 98% of the organizations in the survey said they collaborated with organizations, only a few (20%) said they collaborated in order to specifically serve 18-24s. Some of the collaborating organizations mentioned included YouthBuild, Junior Achievement, YMCA and schools in general.

The Opportunity

80% of respondents said they saw an opportunity to collaborate in the future with other organizations to serve 18-24s. Further, 95% said they envisioned a future opportunity to serve a greater number of aspiring 18-24s and 82% said they saw an opportunity to provide more focused products and services to younger adults. Therefore, we have pinpointed a sizeable gap between how many are currently offering curated services (~half) versus 80-95% who perceive that more is needed.

When asked what other opportunities they believe existed for future collaboration but weren't yet exploited, the respondents cited trade and technical schools as well as universities, youth development organizations like YouthBuild, business incubators and Chamber youth programs.

Lastly, they offered additional ideas their organization could implement in order to serve a greater number of LMI business owners and aspiring entrepreneurs ages 18-24:

- Many mentioned need for targeted marketing campaigns
- Customizing credit/asset building and lending classes
- Reaching out to community colleges and colleges/universities
- Offering tailored "nano" loans
- On-line access to programs and services

One on one conversations with some of the respondents to the survey underscored these themes and others, based on their first-hand experiences:

- Young people who are living in stressful situations may not be able to focus on training unless wraparound services assist in taking care of pressing issues such as transportation and childcare or even daily living expenses
- The need for marketing was stressed, given small numbers of young people who seek out business training independently
- Going to where they are, such as high schools in low income neighborhoods to introduce available programs, was mentioned as an effective strategy

95% said
they envisioned a future
opportunity to serve a
greater number of
aspiring 18-24s

PART IV: OPPORTUNITIES FOR MOVING FORWARD

The first three sections of this paper outlined the serious situation of high youth unemployment and the difficulty in joining the existing workforce. Next we presented highlights from original initial research that explored the lives, dreams and interests of young adults, and then discussed the viability of linking people ages 18-24 to the microbusiness industry through entrepreneurship or potential employment, as additional alternative paths to economic opportunity. Aided by the literature review, the primary research and the group of expert advisors, a beginning list of ideas to facilitate the connection of youth to microbusiness is presented in this last section.

In general the ideas involve scaling youth training programs, creating new products appropriate for their age, how and where to find them, innovations in finance, and making new connections with youth organizations not currently involved with the microbusiness industry.

1. MODEL FRANCHISING

The following four youth programs discussed at the Roundtable Ideation session November 3rd are offered here as possible templates to consider for further expansion.

A. Bo Ghirardelli, Founder, President and CEO at **Youth Business USA (YBUSA)** presented an overview of this program based in Oakland, CA. In summary, YBUSA:

- Aims to prepare, launch and grow underserved young entrepreneurs in Oakland, while preparing to scale services nationally through an online platform
- Recruits aspiring entrepreneurs who have a focused business idea, passion, skills to make the idea happen, stable living situation and commitment to equitable development
- Finds candidates through local community college; adult education programs; community referrals from youth-serving nonprofits and schools; and online via Google AdWords Grant and social media

- Offers business training, professional coaching, small interest-free loans, marketing, pro bono business support (i.e. lawyers, accountants) and one-on-one mentoring
- Trained nearly 80 aspiring young underserved entrepreneurs; 26 new young business owners emerged, creating 18 new businesses and 37 new jobs
- Plans to launch and sustain 100 underserved young entrepreneurs in Oakland each year from 2015 to 2018, a model expected to expand to other cities, such as LA (currently under development)
- Plans to design on-line platform to scale services and offer national accessibility

More information bghirardelli@gmail.com

B. Giovanna Piovanetti, Executive President of COFECC – a CDFI in Puerto Rico – also shared at the November 3 ideation session a business training program they are piloting called **Practical Entrepreneurship Academy**. Observing only local program offerings that were mainly geared toward educated adults with time and money, it offers a specially curated holistic learning and support center for new young entrepreneurs ages 21 to 35, from low-income communities in Puerto Rico, who may not have finished school. It emphasizes practical advice and language over technical and theoretical, and offers life coaching in addition to business training, in a 140-hour after-hours curriculum. On the back end, COFECC links participants to their microfinance programs. Some program aspects include:

- Personal financial planning, in addition to business
- Guidance in choosing best industries for success
- Business etiquette
- How to advertise
- How to staff the business
- Emotional intelligence in business interactions
- Steps to request a microloan

The first advertisement appeared on Facebook only one week prior to launch and received more than 800 views, evidence of keen interest. At present, there are 39 students in the pilot program and there is currently a waiting list for the next iteration, which has 60 enrolled. The courses are offered on-site at the COFECC offices (and some participants bring their children to observe) but conversations are underway with YMCA, which could offer the courses and childcare simultaneously.

Expansion of the program is currently underway with several universities on the island about to offer on-line versions of the curriculum. In addition, COFECC is in the process to become a service provider of Youth Entrepreneurship training under the Workforce Investment Act, in three additional regions in Puerto Rico.

The program was seeded by funds from Citi Community Development.

More information: gpiovanetti@cofecc.net

C. Chatham Business Association in Chicago offers a program called **IT Ambassadors** and four participants were part of AEO's ideation session on November 3, 2015, discussing ideas for connecting young adults to the microbusiness industry. Two talked with the group about their experiences, highlighting their opportunity to gain technical, office, and interpersonal skills through the training. We were simultaneously illumined and moved by their contributions. The program is summarized here: The IT Ambassadors program was piloted in 2013 with the goal in mind to incorporate youth expertise in technology with entrepreneur's business savvy. The IT Ambassadors are trained at-risk Chicago Youth (16-24 years of age) who are focused on establishing an effective online presence for existing businesses in Chicago. They provide technology and marketing services to Small businesses, Chambers and agencies. Services include outreach, data collection, reporting, assessments, communication, vacancy logs, IT training, IT development and IT management. Since 2013, CBA has trained a total of 34 youth to become IT Ambassadors.

"The fundamental distinction between Millennials and older employees is their digital proficiency."²⁹

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D. Henry Rock, Executive Director of City Startup Labs, leads a program for black male Millennials. The Entrepreneurs Academy is a 15-week boot camp (two sessions per year, winter and summer) where young adult African American men learn how to research, plan, launch and operate their own ventures

City Startup Labs student/entrepreneurs sequence through 4 progressive modules, where they address their own conditioning, entrepreneurial mindset, critical-thinking, team-building, business fundamentals, and the planning and crafting an actionable business plan. From there several are selected for incubation.

The modules are:

- Cultivation ► Who they are and why
- Preparation ► What will it take?
- Education ► How will they get it done?
- Demonstration ► Getting it done

The City Startup Labs (CSL) mission is to stimulate entrepreneurial activity and innovation within inner city America. During a two-year pilot program (proof of concept), CSL paced a total of 50 young black male student/entrepreneurs through an accelerator, designed specifically for them. Upon completion of a pitch-event (its version of “Shark Tank”), several were awarded the opportunity to have their ventures incubated in a lean-startup laboratory (the “labs” of City Startup Labs). City Startup Labs was awarded grants from the Rockefeller, Knight and Wells Fargo Foundations to support the pilot. Further in 2014, CSL was one of fifty organizations from around the country awarded the SBA’s Innovation Fund grant. The Urban League of Central Carolinas of Charlotte, NC, was CSL’s principal collaborator. Presently, City Startup Labs is establishing a Center of Excellence at UNCC, in affiliation with Ventureprise, while expanding programmatic activity through licensing, workshops and train-the-trainer. Also at UNCC, CSL is working with the Urban Education Collaborative to design research on the effectiveness of CSL’s model, in fostering enterprise deployment within inner-city America.

More information: henry.rock@citystartuplabs.com



2. NEW PRODUCT DEVELOPMENT

A. Non-profits could consider partnering with incubators specializing in digital technology to develop apps and perhaps video games that inspire youth — in fun, accessible, relevant ways — on entrepreneurship. Introduce the concept, spur enthusiasm, and impart the basics and provide practical ideas.

The technology could include:

- Personal financial literacy
- Steps to building business development plan
- Link to business ideas in local areas (see Research Next Steps)
- Provide contact information for local available mentors/entrepreneurs

3. INNOVATION in FINANCIAL PRODUCTS & SERVICES

There are several areas where financial innovation could facilitate connecting youth to microbusiness.

- Start-up funding
- Incentives for non-profits and microbusinesses to train/apprentice/intern/hire/mentor

Opportunity Youth

- Training expense support

Ideas include:

A. Promise Loans or “nano” loans ► small, interest-free, requires no collateral for start-up funding

B. Tax Credits for youth entrepreneurs (i.e. no tax on inventory, as in Puerto Rico)

C. Youth Bond: Local, state or federal governments could issue Youth Bonds, which are used to finance businesses started by young adults 18-24, who have promised to take courses in financial literacy or already have.

D. Individual Development Accounts (IDAs):³⁰ IDAs are special savings accounts that match the deposits of low and moderate income savers and in this case would be used by young adults 18-24 to start a small business. In addition to earning match dollars, participants would be required to learn financial literacy and get business training.

E. New Market Tax Credit for Youth³¹

F. Scholarships for Enrolling in Entrepreneur Training Programs

Could some scholarship money from post-secondary institutions be utilized to pay room, board, and living stipend for students in entrepreneurial training programs or boot camps?

G. Pay for Success. A **Social Impact Bond**, also known as a *Pay for Success Bond* or a *Social Benefit Bond*, uses private capital to support social programming and promising a return if the program attains specified performance targets. These bonds could be used to scale effective youth programs and investors would be paid a return if there were savings to the government brought about by reduced youth unemployment.

H. Building incentives into SBA loan terms for recipients who train/apprentice/intern/hire/mentor
Opportunity Youth

4. MARKETING & OUTREACH

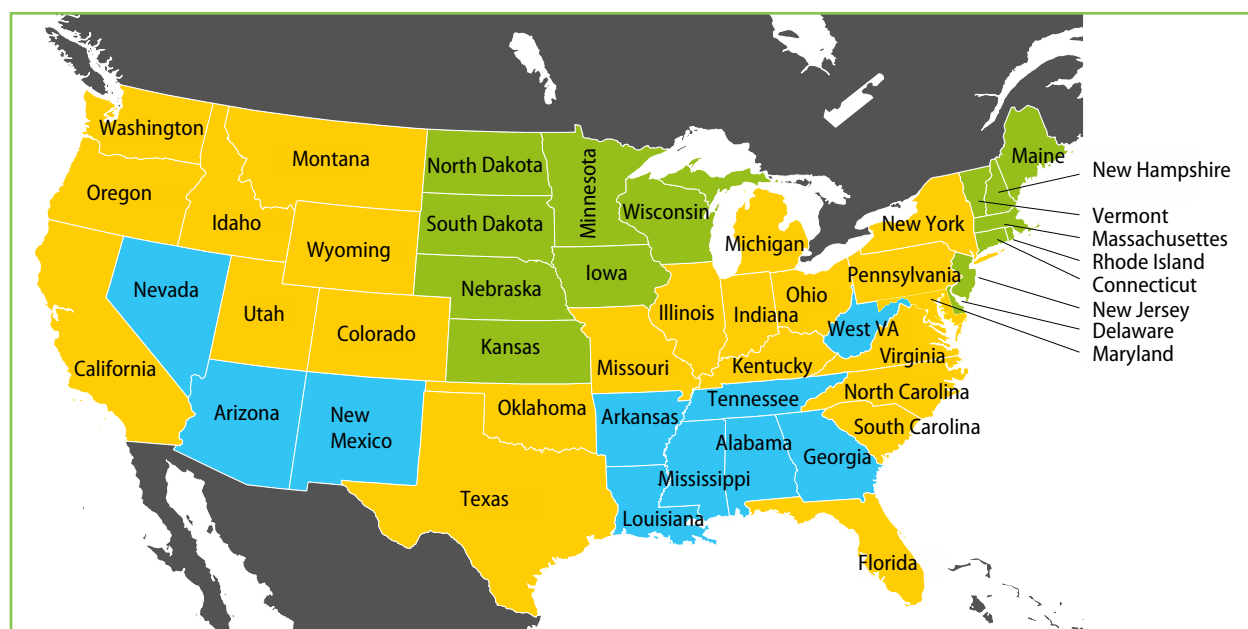
As mentioned early in this report, many youth facing limited employment opportunities may not think about entrepreneurship as an option. Therefore specific targeted marketing to alert them to programs and benefits of training is necessary. In addition, small businesses may need encouragement in hiring inexperienced youth. Some ways to do this include:

A. Using Social Media to reach young adults such as paying for page boosts on Facebook

B. Leverage “Grads of Life” campaign that seeks to unravel some myths about **Opportunity Youth** and inspire small businesses to train/apprentice/hire them

C. Geographic Hot Spots for locating largest concentrations of **Opportunity Youth**. The graphic below depicts states – colored red—with the highest percentages of youth not in school or working, indicating priority target areas. States with highest percent of disconnected youth include a group of southern states including Mississippi, Alabama, Louisiana, Arkansas and Georgia and several in the south west (Nevada, Arizona and New Mexico).³²

In addition to these states, certain districts in New York City and Los Angeles have the lowest high school graduation rates, offering other concentrated areas of focus for programs aimed at **Opportunity Youth**.³³



5. COLLABORATION

- Continue to convene AEO's Expert Panel for roundtable discussions on specific topic areas to share insights and ideas, forge new connections and design possible new experiments
- Seek to bridge the current largely separate worlds of microbusiness and youth development programs
- AEO might aim to expand attendance at annual conferences by youth development organizations

6. FURTHER RESEARCH SUGGESTIONS

A. Social Impact Bond (SIB) effectiveness relies on funding the scaling of evidence-based programs and services. Therefore more information on positive outcomes of youth development and entrepreneurial training programs may be needed before SIBs can be successfully utilized.

B. Local Market Business Needs & Opportunities

(1) Identifying local market business deserts would be extremely valuable for people who want to start businesses and need confirmation that their service/product will be useful in the market, or for those who have talents and ambition but need ideas about services/products to provide.

(2) A related endeavor involves a quantitative survey of small businesses in targeted local areas to evaluate skills and abilities owners are seeking in order to spur growth. This data could inform training programs for young adults and facilitate a matching mechanism for employers with potential employees.

C. Youth – Though we talked to 600 young people in this research project, the questionnaire design parameters limit topic areas to explore. Future research with these youth cohorts is suggested to expand insights. Possible areas of additional inquiry include local geographic deep dives; special underserved groups such as Native Americans, young mothers, rural youth, and so forth; further investigation into skills assessments, ability to cultivate grit and other socio-emotional assets.

7. INSIGHTS COMMUNICATIONS

AEO will present and distribute a form of this report at the 25th anniversary conference in Washington, DC May 18-20 and will make available via the web-site.

APPENDIX

The expert advisory panel contributing insights and ideas to this initiative, most of whom participated in the ideation session in Washington DC on November 3, 2015:

Tom Allison	Deputy Director, Policy & Research	YoungInvincibles
Leslie Boissiere	COO, Campaign for Grade Level Reading	Annie E Casey Foundation
Earl Boyd	Director of Entrepreneur Development	Entrepreneur Works
Bo Ghirardelli	Founder & CEO	Youth Business USA
Joel Hamernick	Executive Director	Sunshine Gospel Ministries
Melinda Kelly	Executive Director	Chatham Business Association
George Koste	Executive Director	Maryland Capital Enterprises
Christine Kymn	Economist	SBA
Karen Landry	Executive Director	War on Poverty
Samia Malik	Program Director	Chatham Business Association
Sara Matthew	Policy Associate	Forum for Youth Investment
Paul McLain-Lugowski	Chief Innovation Officer	Fresno Economic Opportunity Commission
Joel Miranda	Director of Leadership Development	Youthbuild
Giovanna Piovanetti	Executive President	COFECC
Thais Rezende	CEO	Bizworld
Maggie Riden	Executive Director	DC Alliance of Youth Advocates
Henry Rock	Executive Director	City Start Up Labs
Elyse Rosenblum	Principal	Grads of Life
Shay Smith	Small Business Assistance Center Director	Cherokee Nation
Nancy Stark	Sr Manager, Comm. Development Banking	CapitalOne

Four Chicago youths participating in the Chatham Business Association IT Ambassador program also attended the ideation session in Washington DC on November 3, 2015:

Matthew Parks
Charles Edwards III
Christian Kinsey
Jasmine Whitaker

A local young entrepreneur also participated in the ideation session:

Eric Gray, Jr., Eclipse Productions

As did several AEO staff:

Connie E. Evans	President and CEO	Association for Enterprise Opportunity
Ingrid Gorman	Research & Insights Director	Association for Enterprise Opportunity
Tammy Halevy	SVP, New Initiatives	Association for Enterprise Opportunity

Thank you everyone for your valuable contributions.

QUANTITATIVE ON-LINE STUDY METHODOLOGY

Field Dates: August 4-20, 2015

Opportunity Millennials

- 32-minute survey
- Mall Intercept, n=300
- US resident, age 18-24
- Not currently a student
- Currently unemployed but looking for work or employed earning <\$35K/year
- No associates or higher degree

On Their Way Millennials

- 32-minute survey
- Internet Panel, n=300
- 94 students
- US resident, age 18-24
- Currently a student or college graduate or earned at least an associate's degree

Millennial Entrepreneurs

- 30-minute survey
- Internet Panel, n=150
- US resident, age 18-64
- 50%+ Owner/Partner
- HHI \$35K+ if under 35 / \$50K+ if 35 and older
- Higher school grad / GED
- Started business when age 15-34



ENDNOTES

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- 23 Entrepreneurship Policy Digest
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- 25 For research design parameters, see Appendix.
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- 28 The Conference Board, "Are They Really Ready To Work?"
- 29 Carolyn Heller Baird, IBM Institute for Business Value, "Myths, Exaggerations and Uncomfortable Truths: The Real Story Behind Millennials in the Workplace," (January 2015), p. 1.
- 30 http://cfed.org/programs/idas/ida_faqs_article/
- 31 <http://www.enterprisecommunity.com/financing-and-development/new-markets-tax-credits/how-new-markets-tax-credits-work>
- 32 States in yellow are about average for the US; green-colored states have the lowest percentages.
- 33 <http://teaching.monster.com/education/articles/4457-the-best-and-worst-us-districts-for-graduation-rates?page=2>



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